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Surety bonds offer new class of business for general insurance sector, says Bajaj Allianz MD

New Delhi: The Government's decision to allow surety bonds as substitute for bank guarantees in government procurement have opened a new avenue for the general insurance sector and will also help create cross-selling opportunities for the industry, said Bajaj Allianz General Insurance CEO Tapan Singhel.

Surety bonds contracts typically involve three parties – the Principal, the Contractor, and the Surety Provider, that is the insurance company. A surety bond is a risk transfer mechanism for the Principal and protects the Principal from the losses that may arise in case the contractor fails to perform its obligation.

As per the guidelines by the regulator, all the general insurers who are registered under the Insurance Act, 1938 to transact in the business of general insurance are eligible to handle the business related to surety bonds.

"With Surety Bonds, there will be a new class of business for the general insurance industry. We are optimistic that this risk management tool will help the insurance industry grow thus increasing the insurance penetration in India. Surety Bonds business will also help create cross-selling opportunities for the industry," he told PTI.

Unlike bank guarantees, Surety Bonds do not require security over assets and hence this will further increase trust in the insurance industry since the principal's loss gets covered which overall reduces the dependency on banks, he said. *PTI*